Corporate Security Governance.
Towards a Conceptual Framework for Comparative Research

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- DRAFT, COMMENTS WELCOME -


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Introduction

The aim of this paper is to analyze the actual as well as the potential role of private companies in the field of security, in particular their potential contribution to conflict prevention, peacekeeping and post-conflict peace-building in conflict zones and conflict-prone countries. The article shall review the recent literature on “business in conflict” and try to take stock of the current state of research in order to move forward towards a conceptual framework for a comparative research agenda in the field of corporate security governance (CSG), i.e. the contribution of business corporations to the provision of the public good “security”. But why investigate the role of non-state actors in the field of security in the first place? The academic as well as the political security discourse have undergone some remarkable changes towards privatization and de-nationalization which were highlighted by the end of the Cold War. Security issues are discussed much less state-centered today.

(1) As far as the addressees of security are concerned, the notion of human security is more and more challenging the traditional concept of national security. “Human security” includes political freedom, human rights, and freedom from hunger, poverty, and oppression (Nelson 2000; Humphreys 2003; Wenger/Möckli 2003). Confronted with such a comprehensive and denationalized security agenda, security had to be addressed by a broad range of actors from the public and private sphere, which were able to pool their resources and competences.

(2) As far as security threats are concerned, there is a common understanding that non-state actors such as warlords or transnational terrorist organizations play an increasing role in armed conflicts. MOREOVER; In the context of failed states and civil wars private corporations are involved in conflicts in manifold ways – mostly, so it seems, by contributing to security problems rather than to their peaceful solution (Wenger/Möckli 2003: 85; Möckli/Wenger/Drolshammer 2003a: 51; Ballentine/Nietzschke 2004: 35)

(3) Finally, turning to the provision of security, the privatization of security threats is only one side of the coin. Private actors may also contribute actively to the provision of the public good “security”. In the context of failed states for instance, the absence of effective state authority

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caused originally public security governance functions to fall into the hands of private security “entrepreneurs”, however, often with a dubious repute (e.g. local warlords or ethnic clan chiefs). In many armed conflicts private military companies (PMCs) provide military services and police skills such as strategic advice and training,\(^2\) arms procurement, intelligence gathering, logistics, and factory security services\(^3\) – even participation in armed combat with specialized military personnel and operational support are on offer (Lock 2001: 218-222; Ganser 2004: 67; Binder 2004; Avant 1999; Wenger/Möckli 2003: 168; Shearer 1998; Renner 2002: 19f).\(^4\) But if we move beyond these specific cases of “private security governance” the role of business in armed conflict in general has to be addressed. According to UN Secretary General, Kofi Annan, it can be “crucial, for good and for ill”:\(^5\) Under the conceptual umbrella of “global governance” the United Nations have taken the lead in mobilizing the problem-solving resources of private actors, international civil society and business alike, for the provision of public goods. In this context the United Nations Global Compact represents an explicit invitation to the private sector to take an active part in this project. While the originally nine principles of the Global Compact focused on public goods such as welfare, human and social rights, and the environment, the inclusion of the tenth principle, the fight against corruption, has already moved the notion of global corporate citizenship closer to the core areas of state functions, such as security and democracy. Private contributions to security governance were explicitly addressed when in March 2001 the very first of the Global Compact “Policy Dialogues” was convened on the role of the private sector in promoting the principles of the Global Compact in zones of conflict. Foreign investors, in particular the extractive industries, were called upon not to associate themselves with international corruption and bribery, and to engage in conflict impact management, i.e. in making investment decisions dependent on how they affect a given conflict situation.

Vis-à-vis such ambivalent observations as to business corporations’ contributions to destabilization, to fuelling and prolonging and taking commercial advantage of conflicts (see

\(^2\) MIPRI in Bosnia and Croatia, DynCorp in Hungary (Avant 1999).

\(^3\) For example, companies of the extractive industry often possess their own security personnel, e.g. Gazprom, Shell in Nigeria, Talisman Energy in Sudan, Exxon in Indonesia, or BP in Colombia (Lock 2001: 219; Renner 2002: 20).

\(^4\) Cf. Swissinfo, Mai 5, 2004. PMCs received international attention in the 2003 war in Iraq after four mercenaries of “Blackwater Security Consulting” had been killed and later on violated by Iraqi rebels. Largely unrecognized in the public and academic, however, specialized private military forces of MIPRI were deployed during the war in Bosnia as early as in 1995 (Ganser 2004b: 67-69; Lock 2001: 223).

1. State of the Art: Selection Bias and Lack of Comparative Research

In the literature on security and conflict the role of private corporations has received only little attention (Berdal/Malone 2000: 1). As Jake Sherman (Sherman 2001: 5) rightly criticized, in this research field “no coherent ‘big picture’ exits” so far. So far the current research on corporate security governance concentrates on two dependent variables: the literature focuses either on the dependent variable *conflict* and investigates what factors (i.e. corporate activities) directly or indirectly fuel or reduce conflict, or it aims at explaining *company behavior* and seeks to find out why corporate actors engage in CSG. Here, the central aim is...
to investigate whether rationalist (material or social costs) or sociological (norm-based identity) factors matter more and under what conditions they prevail. In addition, some studies have already started to investigate the causal process through which agent behavior changes (Rieth/Zimmer 2004a).

With regard to the negative effects of corporations (e.g. their role in fostering civil war)\(^7\), a considerable number of descriptively rich individual country case-studies exists (see Ganser 2004a: 64-69; Duffield 2000). This strand of research critically investigates how business causes destabilization or prolongs conflict in order to maximize profit – by selling arms, by providing military services, by financing governments or rebel groups, or by just exploiting the regulatory gaps resulting from the decline of public authority (see Elwert 1997; Rufin 1999; Zangl/Zürn 2003).

In contrast, there are hardly any case studies which address how corporations contributed to conflict prevention, peace-keeping, or post-conflict peace-building. By not covering the full range of variation of the dependent variable, the state of the existing literature still is an impediment to comparative and theory-based research, which would be needed in order to test systematically the factors which could explain corporate behavior and its impact. In addition, between-case variance (cross-country/regional, cross-corporate, and cross-conflict studies) as well as within-case variance – longitudinal analyses of periodical changes of the variables such as a change in corporate behavior over time – is absent.

In addition to the selection bias resulting from the concentration on negative cases, another common feature is the widespread lack of reference to generic concepts (Rose 1991: 454f) to hypothesize when, why, and how private business actors engage in conflict zones and under what conditions CSG is successful or not. Although some first conceptual contributions exist (so by Nelson 2000: 28, 58; Banfield et al. 2003: 5), the dependent and independent variables still seem under-specified. For example, most of the literature uses the term “conflict prevention” to cover contributions to pre-conflict, actual conflict, and post-conflict security governance (Rieth/Zimmer 2004a: 4, 8; 2004b: 81; Wenger/Möckli 2003: 27, 32; Carbonnier 1998). It may be useful to distinguish between these phases of a conflict when it comes to assessing and explaining the impact of certain strategies for reducing the level of violence.

\(^7\) Examples often include countries African countries, e.g. Somalia, Rwanda, Liberia, Nigeria, Congo, and Sudan, but also Colombia (South America) and Indonesia (south-east Asia).
The lack of “positive” case studies also may be attributed to a yet unclear and diffuse understanding of what actually constitutes a “successful” corporate contribution to conflict prevention, peace-keeping and post-conflict peace-building. What kind of activities should be included? Just “being there”, i.e. providing income and thus (unintentionally) contributing to the reduction of the causes of violence? Or should we follow a narrower understanding of PSG and focus on observations which indicate a more direct and intentional impact on the provision of security? Some other of the above-mentioned merits and shortcomings may also be accounted for by the fact that much of the existing literature has evolved from non-governmental groups and human rights activists while academia on has remained relatively “silent” (Humphreys 2003: 14) on the role of business in conflict zones.8

2. From the Economies of War to Incentives for CSG: the Changing Relationship between Private Corporations, Conflict and Security

Why should private companies whose business after all is nothing but business take an active role in contributing to the provision of the public good “security”? And why should we expect public actors to call upon them and thereby deliberately give up or outsource their formerly exclusive competence and responsibility for the public good commonly associated with the core of state sovereignty?

The new political environment

Since the end of the Cold War, private corporations have become deeply involved into a considerably enlarged and more complex security agenda. They are confronted with declining governmental authority or even the disintegration of the state in many post-colonial countries. The loss of support from the former superpowers (Renner 2002: 10) has resulted in a significant loss of external revenues and in the inability to provide a minimum amount of national security and basic welfare to their citizens (Fort/Schipani 2003: 384; Binder 2004: 19). As a consequence, rent-seeking elites in countries with rich natural resources sold their assets, i.e. primary commodities such as oil, diamonds, timber, or rubber, to transnational

corporations (see Ballentine/Nietzschke 2004; Berdal/Malone 2000). The revenues from these sales were spent for weapons for para-military units to control the population. Increasing economic inequity, social alienation, and environmental destruction exacerbated the already existing societal tensions and frictions and thus fuelled further conflict or even led to the outbreak of civil war. In a vicious circle resource exploitation financed war, while war was the best means to exploit resources: “Oil finances the war, the war provides access to oil” (Renner 2002: 10, cf. 17f). The “new economic elite” – old army members, local warlords, demobilized soldiers, or rebel groups who benefited directly or indirectly from the access to natural resources had a sustained interest in prolonging conflict, plunder, and violence in order to keep their organized system of economic exploitation through war intact (Renner 2001: 14, 19; Carbonnier 1998).  

Although some authors claim that there is a clear correlation between the likelihood of violence and conflict and the exploitation of natural resources by the extractive industry (Collier 2000; Collier/Hoeffler 2000; Renner 2002: 6)\(^\text{10}\), others maintain that only in the absence of democratic institutions (cf. Wenger/Möckli 2003: 36) “warlord-businessmen” can make instrumental use of the institutions of the state (Münkler 2002: 16, 20f; Renner 2002: 17; Wrong 2000). In any case, in extreme war economies conflicts create a substantial source of income through shadow economies, slavery, child labor, banditry, and plunder (cf. Reno 2000: 45-64). Private actors have established themselves as “war entrepreneurs” with an economic interest in prolonging conflict in order to consolidate their power (Münkler 2002: 136, 141f). In those “new wars” (Kaldor 1999) the traditional relationship between military means to pursue political ends is turned upside down: violence and conflict serve economic goals and must be continued for the sake of the predatory way of rent-seeking (cf. Münkler 2002: 29, 139; Grosse-Kettler 2004: 4, 7).

Transnationally operating private corporations may be involved or engaged in these “economies of war” in several ways: they can directly fuel and perpetuate conflict (cf. Sherman 2001: 6f; Ballentine/Sherman 2003; Renner 2002: 58) by contributing the hardware of wars, such as small arms or land mines. Illegal business transactions such as the trade in illicit drugs and narcotics (Burma, Colombia) (cf. Lock 2001: 206; Segell 1999; Renner 2002:   

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9 For example, the criminal elite in Sudan largely depopulated resource-rich areas in order to increase its access to natural resources (Renner 2002: 12).

10 Ross (2003) has further specified this hypothesis by stating that explorative resources, which require a lot of difficult technical equipment to do business, seem to have fostered separatist conflicts, while more easily accessible resources (drugs, diamonds) have fostered non-separatist conflicts.
35-39) or black market money laundering may also deliberately seek to profit from war and directly contribute to conflict. In contrast with these activities the legal trade with natural resources such as oil, timber, and diamonds is assumed to contribute to conflict indirectly and unintentionally (cf. Ballentine/Nitzschke 2004: 38f). Nevertheless, oil-, gas-, and mining corporations in particular have been accused of turning a blind eye to the negative effects of their commercial involvement in civil wars and failing states. Here, the cases of Shell’s oil production in Nigeria and DeBeers’ diamonds purchases in Angola and Sierra Leone have received much attention. For example, in the former case, Shell’s oil production financed 80 per cent of the government budget of the ruling military dictatorship (Renner 2002: 22-26, 32-35; 46; Ganser 2004: 65f; cf. Frynas 1999; Manby 1999; Pegg 1999), while in the latter case the South-African company De Beers deliberately bought cheap “blood diamonds” from local rebel groups in Angola and thus de facto financed the opposition’s civil war against the government (Burkhalter 2002; Smillie et al. 2000). These extremely questionable practices have raised issues of corporate social responsibility and global corporate citizenship in the field of security as well (“CSR plus”). But why should transnational corporations engage in the provision of public security? Why should they bear additional costs which reduce profits, weaken their competitiveness in relation to other corporations, and possibly damage relations with the ruling political class in the host state (Rittberger 2004: 24)?

With some modifications these questions can also be applied to the involvement of private military companies (PMCs) in zones of conflict. The role of PMCs such as Blackwater Securities, MIPRI (Military Professional Resources Incorporated), Sandline International, Airscan, or DynCorp is receiving increasing attention in the literature about the security-related role of private corporations. Having emerged only after the end of the Cold War, private military firms are a relatively new phenomenon and the assessment of their impact on conflict is still ambivalent (Daase 2003: 190; Lock 2001: 225; Renner 2002: 18). Examples include the South-African company Executive Outcomes (EO) which is, however, no longer existing, but allegedly served corrupt and despotic governments such as military coup-leader Strasser in Sierra Leone (1995) and the dos Santos government in Angola (1993) in their fight against local insurgencies and rebel groups (Avant 1999; Renner 2002: 20) and received payment through granting of mining licenses (Lock 2001: 220; cf. Howe 1998). MIPRI, a US company, supposedly supported the Croatian forces in (re)gaining large parts of the Krajina

11 Swissinfo, Mai 5, 2004. In the meantime, however, the purchase of diamonds is regulated by international certification standards in the so-called “Kimberley Process”.
 territory from the Serb military in May 1995 (Avant 1999). PMCs are increasingly used as “alternative” peace-keeping forces for the more “messy tasks” (Binder 2004: 2, 18; Misser/Versi 1997; O’Brien 1998). Certain PMCs, such as Brown and Root Services and Crown Agents, have exclusively specialized in post-conflict reconstruction and public infrastructure investment (cf. Wenger/Möckli 2003: 146-148). Respectable NGOs, such as CARE, Refugees International, or the Worldwide Fund for Nature, have started to hire PMCs, too (Avant 1999).

**The Increasing Relevance of Security and of a Stable Environment for Private Companies**

While many private companies had used the new freedom resulting from economic globalization in a rather negative way – deliberately or unintentionally financing war-economies – others have increasingly assumed a new role in preventing conflict and reducing the level of violence. This development can, however, only be understood against the background of a general change in the nature of conflict: The emergence of “new” wars (Kaldor 1999) made it necessary for commercial actors to change the ways they conducted business. Today around 90 percent of the existing armed conflicts are intra-state civil wars. Most of these conflicts challenge the authority of nation states’ governments or are taking place on territories where domestic consolidation processes with regard to nation- or democracy-building have not yet succeeded (Daase 2003: 177; Münkler 2002: 16, 19; Möckli et al. 2003a: 51) and where the existing institutions of the state fail to provide public security.

In search of global competitiveness, northern-based TNCs accessed new markets outside their northern hemisphere and invested huge sums of money in developing or transition countries in order to gain easy access to natural resources\(^\text{12}\) and to reap the small profit margins of cheap labor. Thus companies were confronted with the opportunity to realize high profits and the risk to incur high war damages and rising security costs; \(^\text{13}\) they had to choose between either contributing to a more predictable and stable business environment or not investing in or withdrawing from a conflict zone.\(^\text{14}\) This traditional way of thinking about investment has became questionable since the direct (material) and the indirect (reputation) costs of business

\(^{12}\) This applies in particular to the extractive industries, whose local investments are not that easily withdrawn in any case.

\(^{13}\) In 72 countries the security risk of investment is rated at least medium (Nelson 2001: 1).

\(^{14}\) Please note that disinvestment – although it might be morally appropriate and congruent with the demands of NGOs – might also contribute to catalyze existing conflicts through economic decline (Rittberger 2004: 22).
operations in conflict zones increased sharply (Rieth/Zimmer 2004a: 17). However, to simply withdraw may, however, no longer be a viable option if one assumes the further spread of zones of terror and costs of conflict. The decision to invest in the active prevention of conflict, in peace-keeping, or in post-conflict peace-building implies, however, an additional, voluntary investment which may result in a relative weakening of competitiveness towards rival companies in the same sector – as a public good, security is an attractive asset for free-riders.

3. Factors: Explaining corporate behavior and its Impact in Conflict Zones and Conflict-Prone Countries

As “the social responsibility of business is to increase its profits” (Milton Friedman, cited in Scherer et al. 2004: 7), it seems quite paradoxical to expect of profit oriented economic corporations whose aim consists in maximizing shareholder wealth to serve public purposes (Fort/Schipani 2003: 394; Dunfee/Fort 2003: 573). The provision of public goods has never been a primary business goal (Scherer et al. 2004: 7-9). But similar to the voluntary commitment of private corporations to general social tasks such as health, education, or human rights (Scherer/Palazzo 2004: 32; Fort/Schipani 2001: 33; Dunfee/Fort 2003: 579, 582, 594) in a number of codes of conduct and other self-regulatory mechanisms, the business sector could also be instrumental in providing the public good “security”. This expectation is closely linked with the assumption that most companies prefer stable and secure markets, whereas only a smaller part of corporate business de facto profits from conflict or is interested in prolonging it (Ganser 2004a: 12). There may therefore be good reasons for corporations to contribute to the provision of security under certain conditions.

This section systematically overviews the factors which may be relevant for the explanation of the multi-faceted relationship between “business” and “conflict”. In abstract terms, these factors can address three different dependent variables: (1) motivations of private companies, (2) their actual engagement in security governance, and (3) the impact of this engagement on a given conflict (see figure 1). In reality, of course, motivation also plays a role for
engagement, and both variables can turn into explaining factors for impact. As far as the motives of the actors are concerned, we will (*i*) distinguish between three ideal types: a narrow market rationalism, a complex market rationalism, and an intrinsically norm-oriented behavior. As factors which influence the dependent variables “motivation” and “engagement”, we will look at the following independent variables: (*ii*) certain characteristics of the actors themselves, (*iii*) at production characteristics, and (*iv*) at conditions of the political, societal and market environment in which they operate. In how far the engagement of private corporations in security governance will have a negative, neutral or positive impact on conflict will be discussed with regard to the (*v*) type of conflict, i.e. its nature and phase, and the (*vi*)patterns, (*vii*)intensity and (*viii*)level of engagement (for the last three see section 4).

(*i*) motives

In order to conceptualize the motivations of private corporations we distinguish between three ideal types: while narrow market rationalism would see societal and political forces as influential only insofar as they can be translated into short term risks and opportunities in the marketplace (i.e. work via the price mechanism), complex market rationality would assume that business acts in a more long-term and anticipatory fashion. Social and political forces would enter the cost-benefit calculations of business actors via the rationalist conduits mentioned above. Finally, the existence of a normatively textured environment may also give rise to an increased reflection and self-questioning of business actors and to the recognition of certain values as guiding principles for business conduct. The result may be an intrinsic motivation of business to observe and implement ethical principles even where there is no clear economic or political incentive to do so. At the present stage of research, theoretically informed explanations of corporate behavior strongly focus on rationalist factors, i.e. on the material and social opportunity costs of conflict in relation to the costs of conflict-preventing policies (Sherman 2001: 11).

Social-constructivist analyses which focus on the impact of norms on corporate behavior are in scant supply. The idea that a logic of appropriateness possibly could be at work has entered

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15 This causal chain renders the use of the attributes “independent”, “dependent”, and “intervening” used in figure 1 somewhat arbitrary. For example, “coalition patterns”, which are indicators with which the “dependent” variable “engagement” can be described (corporate, collective, public outsourcing, public-private) can also be discussed as factors which may help to explain negative, neutral or positive impact; see (*v*) below.
the analytical debate only recently (Scherer/Palazzo 2004: 32; Scherer et al. 2004: 19, 23; Dunfee/Fort 2003; Rieth/Zimmer 2004a; Litvin 2003: 311-341; Rieth/Zimmer 2004b: 85-87). Norm-guided motivations of private corporations to engage in CSG are either attributed to a high amount of resonance of internalized CSR, to a genuine ethical commitment (“philanthropy”) or conceptualized as a result of a learning or socialization process. For example, Dunfee/Fort (2003: 599-605) have forwarded a model according to which behavior varies with the set of organizational values (imperialist, chameleon, nationalist, and opportunist). Further (positive) exceptions are Rieth/Zimmer (2004a: 19). Their article examines whether Shell’s willingness to carry out conflict-preventive measures in Nigeria was the result of a learning process. Similarly, Bexell (2004: 110-118) applied discourse analysis to test whether the Canadian oil company Talisman Energy had changed its behavior out of constructive engagement (norms) or out of political activism and pressure. These studies remain the exception. In (nearly) any case, the literature has singled out “costs” as the most important rationale: “If stakeholders [have moral preferences and] wish corporations to behave otherwise, the market will send the appropriate signals” (Fort/Schipani 2001: 47f). Thus, the assumption that corporations would act socially responsible out of a voluntary or moral basis is not very prominent.

(ii) actors’ characteristics

Among the actors’ characteristics, company size and ownership matter (cf. Dunfee/Fort 2003: 567). If a company’s holding structure is not public but private, the company is less likely to adopt CSG measures because it is relatively insulated from shareholder responsibility (cf. Ballentine/Nitzschke 2004: 43). Too, small-and middle-sized enterprises (SME) are less likely to adopt CSG measures because they are less “visible”, more mobile, dispose of smaller resources, and constitute a less attractive target of NGO-campaigns than big TNCs (cf. Ballentine/Nitzschke 2004: 43; Carbonnier 1998; Sherman 2001: 10). However, good reasons could also be brought forward for the opposite expectation: just because the responsibility is more personalized and less anonymous, private and relatively small firms may act in a more

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16 Renner (2002: 59), for example, claims that Talisman sold its Sudanese oil project because the company feared losing access to the US market. As Asian companies have “filled the void” from Talisman’s disinvestment in Sudan, the situation on the ground in Sudan did not change.

responsible way. Finally, the distinction among business type (legal or illegal) can be supposed to tell us more about logic of action to be expected by a private corporation.

(iii) product(ion) characteristics

As far as product(ion) characteristics are concerned, as the “blood diamonds” example demonstrates, the visibility of a product (cf. Lewis 2004: 26) should be considered as a potential factor which impacts on a company’s motivation. Companies with unknown brands can be expected to be less attracted (or pressured) to incorporate CSG into their business ethics as the likelihood of consumer boycotts is significantly reduced (cf. Litvin 2003: 287; Sherman 2001: 9, 15). The same logic applies to the length of the supply chain (cf. Renner 2002: 21; Sherman 2001: 11). The more production phases and the more a product consists of sub-units, the less likely the diverse parts and correspondingly the whole brand are recognized as a “conflict product”. In sum, small-scale, local business from non-western states with weak civil society structures and so-called “rogue companies” are more able to free ride on the scruples of their competitors (Ballentine/Nitschke 2004: 50; cf. Lewis 2004: 8, 26). Hardly surprising, industry type or production sector seems to make a critical difference. In the research on the negative effects of business in conflict first sector companies; i.e. the natural resource extractive industries, received particular attention. According to the lengthy relationship between production cycle and return on investment (Sherman 2001: 8), the literature assumes that the material costs to withdraw from a conflict zone are very high (cf. Rittberger 2004: 23; Sherman 2001: 11). In empirical terms, the literature has fundamentally supplemented this assumption with empirical analyses of how e.g. DeBeers – the world largest diamond manufacturer – has wittingly contributed to prolonging civil conflict in Sierra Leone and Angola by buying “blood diamonds” from local rebels. Sherman (2001: 9) has further specified that asset location (diversified: high costs of withdrawal; off-shore/enclaved: low costs of withdrawal) impacts on a company’s decision whether to stay in a conflict zone or not, too. How distant or close core business activities are to conflicts, and how immediately corporations are affected by them, may be assumed to have an impact on a company’s engagement in security governance: “A company will have less ability, usually less interest and often less legitimacy (especially if acting independent of other companies) to intervene in conflicts that are occurring further afield and not directly affecting its immediate operations” (Nelson 2000: 62).
However, the literature has overlooked a possible curvilinear correlation between industry type and CSG engagement. One could argue, indeed, that the higher the initial amount of investment and the longer the corporate engagement of a company in a conflict zone, the higher its interest in CSG is. What is more, the role of the financial service sector in CSG has not been adequately addressed although banks, insurance companies, and pension funds could indirectly contribute to CSG (or, alternatively, to conflict) by issuing exports and investment credits, allow money laundering, and engage in responsible financial investment management according to ecological, social and economic imperatives (Ganser 2004b: 71-73, Ganser 2004a: 15; Sherman 2001: 13f; Berdal/Malone 2000: 12f).

(iv) political, societal and market environment

The different logics of action also vary with the political, societal and market environment within which businesses act. This three-dimensional environment is increasingly difficult to understand as a pure market constellation in which only the avoidance of costs and the outwitting of competitors matter. Corporations operate in a space that is crowded by public actors (states and international organizations), other private actors such as civil society, customers, shareholders, and, last but not least, by other companies that are not only rivals and competitors, but also potential cooperation partners. All of these actors bring with them particular challenges, role conceptions and normative standards that are directed towards the conduct of business operations. Economic rationality may not be replaced by some kind of normative orientation, but the concept of “market rationality” itself is changing its meaning under the conditions of a normatively enriched environment. Costs that need to be taken into account may be incurred through the activities of private and public actors, e.g. through boycotts and adverse campaigning by civil society activists or through the regulation of business. By the same logic, it is not at all clear that less cost-intensive (i.e. ecologically and socially problematic) forms of production do always yield the highest profit. Ecologically and socially sound products may stand a better chance in particular niches of the market, may carry lower insurance costs and may facilitate the interaction with other firms. In order to systematize such considerations, in our research on corporate social responsibility (see Conzelmann/Wolf 2005) we differentiated three aspects that may show up in business’ calculation of cost and benefits, before they decide to enter into and comply with private codes of conduct, namely:

- the direct costs associated with civil society action and consumer boycotts;
• the direct costs associated with state failure and/or public regulation at the national and international level; and

• the reputation costs to be avoided by not being associated with making profits by exploiting and prolonging armed conflicts, in the eyes of “aware” consumers and ethically oriented investors.

All of these three triggers can be expected to play a role for the behavior of businesses in conflict zones or conflict-prone countries. As far as the costs associated with public regulation are concerned, at the international level the activities of TNCs are not effectively restrained (Dunfee/Fort 2003: 580). A general legal framework which guides the operations of companies in conflict zones does not exist (Banfield et al. 2003: 56). At the national level as well, the absence of an effective state monopoly of power rather than the threat of public regulation will produce the costs which a company would want to avoid by making active contributions to security governance. A systematic comparison between consolidated states with functioning governance structures and less corruption such as Botswana,18 South Africa, and Namibia, and failed states exhibiting a distinct “war economy” such as Angola, Sierra Leone, Somalia, Liberia, Cambodia, Burma and Congo (cf. Wrong 2002; Renner 2002: 26-31; Grosse-Kettler 2004) could reveal the extent to which the political institutional environment affects the motivation and engagement of TNCs in zones of conflict (cf. Rittberger 2004: 18f; Ballentine/Nietzschke 2004: 37). Where the state fails to provide public security, direct security costs are linked with the material (local) foundations of the firm. Conflict threatens the companies’ investments (property and staff), which in turn face higher security services- and business costs. Costs include material damages to the company’s local production assets (facilities, machineries, oil pipelines)19 or public infrastructure (transport routes), loss or destruction of local markets, loss of labor, staff, and personnel (“brain drain” because of kidnapping, emigration, or military recruitment), and higher insurance and security payments to avoid the possible risks mentioned (Wenger/Möckli 2003: 107-109).

The political environment can also differ with respect to the amount of corruption. Paying protection money or bribes to repressive local leaders, warlords, or rebels (Lock 2001: 224) or engaging their militias as security firms to protect the companies’ assets, additionally raises

18 Botswana in particular seems to be regarded as a positive outperformer in war-prone Africa – at least until the end of the last decade.

19 In Bosnia, half of the local industry plants and three quarters of the local oil pipelines had been destroyed by the end of the war in 1995.
costs and – as it indirectly finances war – at the same time fuels the conflict.\textsuperscript{20} Even turnovers and the levels of consumption in the home market are probably not to be spared from the consequences of conflict or international terror (cf. Möckli et al. 2003a: 52; Nelson 2000). As a number of lawsuits have already been brought against TNCs that allegedly violated human rights,\textsuperscript{21} legal liabilities are also included in the opportunity cost structure of conflict (Ballentine/Nitzschke 2004: 39; Renner 2002: 60). Furthermore, business also made the experience that any post-war reconstruction is much more expensive than the prevention of a conflict in the first place (e.g. Mozambique, Sri Lanka) (Wenger/Möckli 2003: 109).

The societal environment affects the companies’ reputation and consumer loyalty as a “key corporate asset” (Wenger/Möckli 2003: 116; Spar/LaMure 2003). Due to the spread of communication technology and the growth of international civil society organizations, northern-based TNCs such as McDonalds, Nike, or Coca-Cola came under massive pressure from NGOs. Consumers and shareholders expected from them to conduct business in a way compatible with basic social, human rights and environmental standards. Those who did not commit themselves to such CSR principles risked reputational costs, consumer boycotts,\textsuperscript{22} the loss of market shares, falling stock prices, and alienated relations with their “stakeholders”\textsuperscript{23} (Rieth/Zimmer 2004a: 17; Banfield et al. 2003: 16; Möckli et al. 2003a: 51; Wenger/Möckli 2003: 114f).\textsuperscript{24}

Companies that are either normatively convinced of CSG or face immense reputation costs are more likely to pursue CSG (Ballentine/Nitzschke 2004: 50): Depending on the region of origin and the political culture of the company’s original, national environment (country “salience”) (cf. Pauly/Reich 1997) and/or the degree of public shaming linked with the domestic structure of the home country (weak or strong societies), typical western- or northern-based multinationals (e.g. Nike) are more likely to engage in CSG than firms that originate from the eastern or the southern parts of the world. The underlying hypothesis is that

\textsuperscript{20} Prominent examples include the case of Talisman Energy in Sudan (Bexell 2004: 111-118; Lewis 2004) and Mannesmann and BP in Colombia (Rieth/Zimmer 2004b: 87-91), Shell in Nigeria, and Elf in Burma – all part of the extractive business (Ballentine/Nitzschke 2004: 41).

\textsuperscript{21} See, for example, Shell in Nigeria (Rieth/Zimmer 2004b: 86), Exxon Mobil in Aceh, and Unocal in Burma.

\textsuperscript{22} See, for example, Shell and the Brent Spar boycott or Nike and the anti-Sweatshop campaign (Swissinfo, May 5, 2004; Ganser 2004b: 72).

\textsuperscript{23} The term “stakeholders” includes all those that have a “stake” in the company’s business such as their clients, shareholders, creditors, employees, and business partners (cf. Rieth/Zimmer 2004b: 95; Bexell 2004: 109).

\textsuperscript{24} See, for example, Levi Strauss’ withdrawal from Burma or Talisman’s – a Canadian oil company - withdrawal from Sudan after heavy public criticism (Rieth/Zimmer 2004a: 1).
companies originating from consolidated democratic states are more likely to pursue CSG out of normative and instrumental reasons: while public scrutiny and the potential for shaming are high, liberal human rights norms, concerns for democracy, and peaceful codes of conduct are at the same time very prominent and could thus have already been incorporated in the internal structure of the firm (Ballentine/Nitzschke 2004: 42; Litvin 2003: 300; Lewis 2004: 8; Renner 2002: 40-45; Scherer et al. 2004: 18; Scherer/Palazzo 2004: 31). For example, Deborah Avant (1999) explains variance in the behavior of two Private Military Companies (PMCs) with recourse to the social-constructivist variable “cultural environment”, in which the firms are embedded (cf. Lock 2001: 220). are less likely to adopt CSG because they are less known to western activists (cf. Ballentine/Nitzschke 2004: 42).

(v) type and phase of conflict

Finally, the impact of private contributions to public security could vary with the type and the phase of conflict. For example, the impact of CSG on multi-faceted conflicts, in which a range of additional factors such as ethnicity or religion come into play, might be more difficult to address than the typical economic resource war mentioned above.25 “Conflict sensitive business” (Banfield et al. 2003: 13; Fort/Schipani 2003: 387) can try to anticipate and to prevent conflict in the first place (pre-conflict stage), can take measures to reduce the level of already existing violence (conflict stage), or to contribute proactively to the establishment of democratic state institutions (post-conflict peace-building) (Banfield et al. 2003: 5, 15). The (re-)establishment of functioning governance structures aim at increasing the long-term investment opportunities, reducing operational costs, and allow for the reallocation of states’ resources from the military sector to education or private sector development (Nelson 2000). For example, Collier (2000: 17) stated that in post-conflict phases the risk of violence is a twice as high as in pre-conflict phases, which suggests that different or additional measures might be needed.

25 See, for example, Grosse-Kettler’s (2004: 2f) selection of the Somalia conflict which differs from the conflicts in Sudan, Liberia, and Congo as it was no typical self-financing resource war.
4. “Positive Impact”: Behavioral Options of Corporate Actors to Promote Conflict Prevention, Peace-keeping and Post-Conflict Peace-Building

One of the major shortcomings of the existing literature lies in a selection bias in favor of case studies in which business has had a “negative” influence on conflicts. While a significant amount of individual (regional, policy specific) studies on negative contributions of business do exist, empirical research on the positive role of business in conflict zones consists of a relatively small number of descriptive single case studies and policy papers or NGO sponsored “action reports” (e.g. Banfield et al. 2003). Compared to the research on the economies of war, “business of peace” is a relatively new issue. The potential positive contribution of the business sector is largely “untapped” (Wenger/Möckli 2003), theoretically underspecified, and lacks systematic identification, testing, and comparison of potential independent variables and causal mechanisms (cf. Banfield et al. 2003: 27, 66; Rieth/Zimmer 2004a: 2; Ganser 2004b: 74; Ballentine/Nietzschke 2004: 35). Studies on conflict prevention mainly focus on state actors and international organizations, disregarding corporate actors. The CSR-literature investigates the impact of corporate actors on environmental and labor standards and human rights, but not their impact on security. Neither policy practitioners nor Political Science have yet fully acknowledged the potential contribution of private actors to the prevention of conflicts.

For the purposes of a comparative, theory oriented research agenda the strongly biased case selection offers too little variation on the side of the dependent variable. But before we can identify and investigate more empirical cases in which private corporations have made or could make positive contributions to the provision of the public good “security” in conflict zones or conflict-prone countries, we need to come to a more differentiated notion of the security-relevant behavioral options among which private corporations can choose. The following typological suggestions should not only serve to structure our observations when we are looking for “active engagement” of business in conflict prevention, peacekeeping and post-conflict peace-building, but can also help to look for causal connections between these behavioral options and their impact on conflict at a later stage.

(vi) coalition pattern of actors
The impact of business’ contributions to conflict prevention, peacekeeping and post-conflict peace-building will supposedly also depend on the constellation and the coalition pattern of the actors which are involved. No single corporate actor will have the necessary capacity all by himself because “[t]he causes of war are more multifaceted that any one business […] can eliminate” (Fort/Schipani 2001: 19; Rieth/Zimmer 2004a: 30). Even the largest TNCs do not possess the adequate level of creative capacity (Gestaltungsmacht) to organize a large-scale transformation of a country (Ganser 2004b: 60; Wenger/Möckli 2003: 132, 144, 168). In weak states, corporate actors have to cooperate with (sometimes dubious) authorities in order to enjoy a de facto or de jure guarantee to undertake business freely.26 In any case commercial actors heavily rely on public frameworks and state institutions, which guarantee property, enforce binding commitments, and police fraud and theft (Scherer et al. 2004: 3f; Dunfee/Fort 2003: 568). The effectiveness of CSG would be seriously reduced if companies act unilaterally: only a collective, intra-sector conflict prevention initiative is considered to overcome the negative incentives of free riding and defection (cf. Lewis 2004: 3, 8, 21; Sherman 2001: 8, 12). Last, but not least, every time business engages in public tasks, a problem of legitimacy arises: the private provision of public goods is not accountable to transparent and participatory (democratic) institutions (Bexell 2004: 108; Scherer/Palazzo 2004: 39f; Cutler et al. 1999; Wenger/Möckli 2003: 168, 170). As a consequence, Möckli et al. (2003b) claim that the engagement of the business sector in the prevention of conflicts is credible within public-private partnerships only which go beyond “pure” corporate initiatives (corporate self regulation) and may include governments, international organizations, and the participation of NGOs. Their success could also depend on the mode of governance which is employed and which could either be more horizontal (voluntary or equal partnerships) or more hierarchical (primacy of the public sector/mandatory partnerships) (cf. Ballentine/Nitzschke 2004: 48, 55).

(vii) activity intensity: complying, doing no harm, doing something good

Following Nelson (2000) and Banfield et al. (2003: 5), the following three levels of private company engagement in conflict zones or conflict-prone countries can be distinguished:

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26 For example, in Somalia and Sierra Leone, local warlords and rebel groups have taken care over the transport of international aid or demanded to be paid passage through their roadblocks (Münkler 2002: 155f; Humphreys 2003: 15; Grosse-Kettler 2004: 11). Other authors, however, point to the opportunities for free riders and therefore call to discourage companies from acting unilaterally and to organize a collective conflict prevention initiative (cf. Lewis 2004: 3, 8, 21; Sherman 2001: 8).
firstly, at the minimum level, companies can just comply with the existing but insufficient local or international regulatory environment. The domestic situation in failed states demonstrates, however, that this approach can hardly be considered as an effective strategy to prevent conflicts: As in conflict zones the amount of arbitrary violence is high and the amount of functioning public institutions and regulations is low, mere compliance is unlikely to generate a sustainable positive effect. The second option is described as “do no harm” (Anderson 1999) by not raising the level of violence and trying to minimize existing negative externalities. To give an example, companies could voluntarily, for instance on the basis of a corporate code of conduct, refrain from abusing regulatory or implementation gaps, from violating human rights, corruption, money-laundering and damaging the local environment or harming the local community (Wenger/Möckli 2003: 129, 133; Banfield et al. 2003: 15). Although this attitude is likely to have a more “positive” impact than the compliance option, it still remains reactive and static (Ganser 2004a: 63) and is therefore unlikely to cross the positive threshold to a substantial reduction of the level of violence outside the immediate reach of corporate activities. The much advocated “maximalist” behavioral option is therefore described as a pro-active “do” approach towards conflict prevention, peacekeeping and post-conflict peace-building (Dunfee/Fort 2003: 574; Fort/Schipani 2001: 3; cf. Ganser 2004b: 69; Möckli et al. 2003: 53f).

Similar to the typological suggestions offered by Banfield et al. (2003: 19-23), Wenger/Möckli (2003: 137-159) suggest that corporate actors could passively and actively engage in conflict prevention: Passive engagement includes donating money (funding) or material (in-kind support) to preventive actors or goals (138-142), while active engagement, i.e. “strategic philanthropy” includes the transfer of knowledge as well as sharing of staff, managerial, and technological expertise (142-144). Fort/Schipani (2002: 415-425) suggest to foster economic development for the marginalized (providing employment, training, youth, and medical programs), to adapt good governance principles (transparency), to fight corruption, to nourish a local sense of community (intra-firm dialogue and political participation), and to pursue active conflict mediation (track-two diplomacy) (cf. Dunfee/Fort 2003: 597). Again, none of these policies or mechanisms have been systematically tested with regard to their concrete impact and degree of effectiveness, or the domestic conditions under which they to work. These questions would have to be addressed in connection with the

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factors mentioned in section three, such as the nature and stages of conflict, or the possible pathways of transmission (actor constellations).

(viii) levels of engagement

With regard to CSG instruments and their potential impact, we may also distinguish between micro and macro level activities. Micro level measures such as employee or community relations target the local environment of the firm. For example, companies could either pay adequate local wages or comply with higher international standards (neutral) or maximize peace-building activities with social investment and building of human capital (transfer of skills and expertise) (positive). New investment decisions could either occur in the form of a policy dialogue with the local community (neutral) or invest in the social development of local communities and the private supply of public services that are not delivered by the government (positive). Macro level measures target national environments. For example, a company could decide to invest in a country only if local governments guarantee a just and equitable distribution of revenues (neutral) or even invest in local administrative capacity to guarantee the former (positive). Companies could also refuse to pay bribes (neutral) or adopt measures that increase transparency (positive).

5. Towards an Agenda for Comparative Research

Where do we go from here?

We have tried to show that the negative role of business in conflict zones has already been investigated in a remarkable number of studies, whereas the positive role of corporate actors is still under-researched. The empirical basis for comparative studies which could evaluate the potential role of private contributions to security governance is still absent because so far the literature has not yet fully explored the variance in outcomes. Given these shortcomings, the future challenges of CSG research could be described as follows:

CSG research will have to complement empirically the lack of descriptive studies with regard to the positive role of corporations first before it can move forward to compare and to analyze the explanatory quality of the various factors which are supposed to influence private corporations’ behavior and its impact on conflict. In order to find out the cross-sectoral
potential of CSG, empirical case studies will have to go beyond the sector of the extractive industries which is so far prevailing. What is more, some conceptual clarifications still remain. It is still not clear by what indicators the final dependent variable “impact on conflict” should be measured. For example, should the reduction of the level of violence be measured by the number of casualties (including civilians)?, and/or by the quality of the political institutions that were established in the phase of post-conflict peace-building in the respective country? A further analytical problem arises from the fact that successful conflict prevention in pre-conflict phases seems to be a particular concern for contra-factual analysis.

Secondly, and on the basis of an enlarged empirical basis which should include a broad range of business sectors, academic research would then have to address the causal dimension of CSG and specify the mechanisms through which and the conditions under which corporations can contribute (or fail to do so) to conflict prevention, peacekeeping and post-conflict peace-building. More analysis of the causal chain, i.e. under what conditions actors will change their behavior and can make positive contributions, is still needed. The literature has neither systematically tested the impact of CSG on conflicts nor tested under which conditions corporate actors change their behavior and reform their conflict-catalyzing activities with businesses of peace (cf. Ganser 2004b: 74; Ballentine/Nitzschke 2004: 42; Haufler 2001b). Regarding logics of action (cf. Sherman 2001: 16), the literature has just started to move beyond the usual assumption that “costs matter” (Rieth/Zimmer 2004a). Cases which differ with respect to actor constellations, which show variance in the different phases of a given conflict (pre-conflict, conflict, post-conflict), or which differ in the mechanisms through which corporate security contributions take place, have yet to be integrated into a comprehensive comparative research framework.

In sum, private corporations can make a meaningful contribution to a form of new security governance. Developing the CSG research agenda further could provide invaluable, practical advice to prevent and manage future conflicts more successfully and in a way compatible with the requirements of good governance.

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28 Existing studies in this field include the so-called “Kimberley Process” which regulates the formerly illegal purchase of “conflict diamonds” under international certification standards; the “Chad-Cameroon pipeline-project”, in which the World Bank, the government of Chad, and the Exxon Mobil/Chevron/Petronas-consortium agreed on a “revenue management plan (Sherman 2001: 11, 17; cf. Rittberger 2004: 27f; Renner 2002: 60f); the “Extractive Industries Transparency Initiative” in which UK Prime Minister Tony Blair demanded of the extractive industry to publicize its payments to local rulers in order to increase transparency and to reduce corruption.

29 Early examples of collective, socio-economic business projects exist in Sri Lanka, Colombia, Northern Ireland, and South Africa (Wenger/Möckli 2003: 172).
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